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AUTHOR	Ashmore, M. Catherine; Pritz, Sandra G.
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ABSTRACT

This unit on managing a small business, the 11th in a series of 18 modules, is on the second level of the revised PACE (Program for Acquiring Competence in Entrepreneurship) comprehensive curriculum. Geared to advanced secondary and beginning postsecondary or adult students, the modules provide an opportunity to learn about and try out entrepreneurship ideas so that students can make a preliminary assessment of how these ideas relate to personal needs. The units on this level contain detailed explanations of small business principles, suggestions on how to find information and use techniques, and encouragement for creating a future business. Students completing this unit should be able to perform these competencies: (1) use the decision-making process to make business decisions, (2) identify steps in the planning process, (3) identify organizational tools for a small business, (4) identify control procedures that can be used by a business, and (5) identify time management techniques. The unit is organized into five sections. Following a preliminary section on how to use the unit (with vocabulary and a review of the objectives for this topic on level 1), the unit's information is presented in question-and-answer format. Individual and group activities, an assessment to be completed with the teacher, and sources used to develop the unit follow. A list of the modules of Revised PACE, Level 2 completes the unit. (KC)

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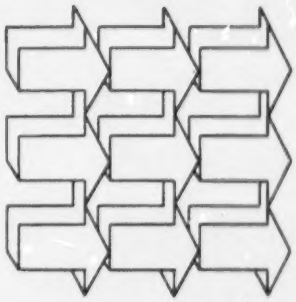
REVISED
Program for Acquiring Competence in Entrepreneurship



UNIT 11

☐ Level 1
☑ Level 2
☐ Level 3

Managing The Business

Developed by M. Catherine Ashmore and Sandra G. Pritz

You will be able to:

- **Use the decision-making process to make business decisions**
- **Identify steps in the planning process**
- **Identify organizational tools for a small business**
- **Identify control procedures that can be used by a business**
- **Identify time management techniques**

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BEFORE YOU BEGIN. . .

1. Consult the *Resource Guide* for instructions if this is your first PACE UNIT.

2. Read the Unit Objectives on the front cover. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met at Level 1:

   - Explain the role of management in operating a business
   - List the steps involved in the decision-making process
   - Define and explain the functions of management
   - Identify rewards and problems of the management role

   If you feel unsure about any of these topics, ask your instructor for materials to review them.

4. Look for these business terms as you read this unit. If you need help with their meanings, turn to the Glossary in the Resource Guide.

budget	policies
controlling	procedures
job description	schedule
organization chart	span of control
organizing	standards
planning	time management

MANAGING THE BUSINESS

WHAT IS THIS UNIT ABOUT?

Good management is the key to success of any business—especially a small business. As owner/managers, entrepreneurs must rely on their own management skills and not those of others.

The purpose of this unit is to give you a detailed description of the management process. You will examine and practice decision-making skills that will help you become an effective entrepreneur. You will examine the planning, organizing, and controlling functions of management. Suggestions will be presented for more effective management of your time.

Here's an example:

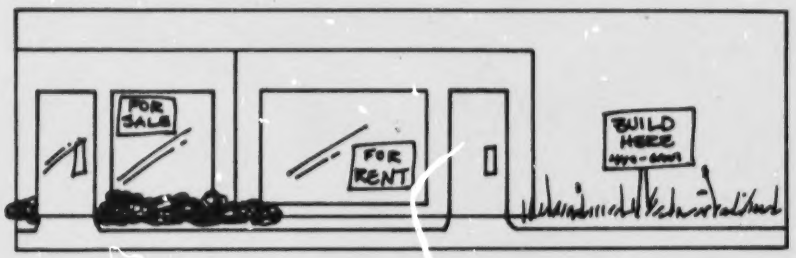
> The little carryout restaurant was changing owners again. First it had featured tacos and other quick Mexican foods. After a year, the "Taco" sign came down, and in its place, a "Pizza" sign appeared. A year and a half passed, and another change occurred. Down came the "Pizza" sign and up went a new "Taco" sign again. The new sign stayed up for many years. Why? The answer was obvious to anyone who had patronized the restaurant during the three different ownerships. Good management made the difference.

WHAT'S INVOLVED IN MAKING GOOD BUSINESS DECISIONS?

Decision making is the most important skill a good manager can have. The business will prosper or fail according to the decisions the manager makes. It is important to feel comfortable and competent about making decisions. Consider the following example:

Connie Crocker wanted to open a day-care center for children. She planned to operate the center from 7:15 a.m. to 6:15 p.m., five days a week. Her problem was in obtaining a facility. She had recently discovered that her own home would not meet licensing requirements for day-care centers.

What can she do? How would you advise Connie to solve her problem? She came up with only two solutions: (1) abandon her day-care center idea, or (2) risk her savings and purchase a building, hoping she can meet payments. Which is the best solution? How would you go about making the decision?



WHAT ARE THE STEPS INVOLVED IN MAKING BUSINESS DECISIONS?

The decision-making process is built on the following five steps:

1. Identifying the problem
2. Defining alternative solutions
3. Gathering facts about the alternatives
4. Evaluating alternatives to pick the best solution
5. Formulating a plan of action

HOW DO YOU IDENTIFY THE PROBLEM?

The first step, identifying the problem, is the most important. If the problem is not correctly identified, the solution will be worthless. For example, Connie Crocker identified her problem as money. Then, her entire decision-making effort would be concentrated on finding new sources of money. Although money is a limited resource in this situation, it is not the cause of the problem. Connie's real problem is that she needs a day-care facility five days a week. It must be large enough for thirty children and meet day-care licensing standards.

WHAT ABOUT DEFINING ALTERNATIVE SOLUTIONS?

Most successful managers define several alternative solutions for their problems. The more alternatives from which managers have to choose, the better their chances of finding a workable solution. So far, Connie had identified only two alternatives, neither of which she found acceptable: abandoning the day-care center idea or risking her savings to purchase a building that meets requirements.

Connie could also—

- rent space and fix the building to meet requirements,
- find a business partner who has access to a suitable building,
- look for a low rent community building,
- sell her home and buy a building that is suitable for both a day-care center and a family home,
- build an addition onto her home to accommodate the day care center,
- plan to operate with sixty rather than thirty children so there will be more income to cover building payments,
- find out if federal grant money could be obtained to subsidize the day care center.

HOW DO YOU GATHER FACTS ABOUT THE ALTERNATIVES?

To select the best alternative, managers must gather enough facts about each alternative to make an informed choice. Important decisions may require much research before adequate information is found. Making decisions of minor consequence may require only a phone call or two, or a trip to the library for some statistics.

In Connie's case, she spent several weeks gathering the information she needed. She talked with realtors, contractors, bankers, and day-care center inspectors to get an idea of her exact needs and the costs of the different alternatives. She found out about existing facilities and fees. She talked with community leaders about the possible use of various buildings. Since she wanted to be a sole proprietor of the day-care center, she ruled out looking for a partner. She visited the library and looked at the latest census data to find the potential number of children needing day care. Finally she felt she had enough information to make the decision. She decided to rent the Sunday school facilities of a nearby church.

WHAT ABOUT FORMULATING A PLAN OF ACTION?

Once the best alternative has been chosen, managers must decide who will implement the plan. If equipment is needed, it must be scheduled or purchased. If materials and supplies are needed, they must be ordered and delivered to the place of use.

Connie's plan of action had many items. She needed a contract with the church for their Sunday school facility. A carpenter had to be hired to make the necessary facility changes. Inspection for licensing had to be arranged. Books, toys, games, cots, and other materials had to be purchased. Children had to be recruited. Connie's completed plan of action detailed all of these activities. Now she could begin to implement her decision. Soon she would be operating her own day-care center.

WHAT ARE THE DECISION-MAKING SKILLS?

You have seen how Connie used the decision-making process to achieve her business goal. But what about you? Do you feel comfortable with this decision-making method? Do you have any of the following decision-making skills?

- Can you analyze cause and effect relationships?
- Can you evaluate peoples' performance without being influenced by their personalities?
- Can you identify creative alternatives?
- Will you take the time to research needed information?
- Can you determine the costs of alternatives?
- Can you keep personal values apart from your analysis of alternative solutions?
- Can you evaluate the effect different solutions will have on the total operation?

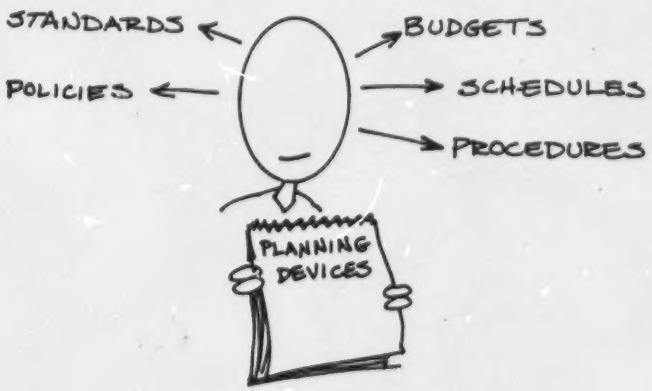
If you feel these questions do not describe you, you may wish to sharpen your decision-making skills. Try using the five steps in decision-making to make personal decisions. This method can help you to improve your managing abilities.

WHAT ARE THE MANAGEMENT FUNCTIONS?

The job of managing varies from business to business. Each management position is unique because the business of each company and the personality of each manager is different. However, all managers of small businesses are in charge of the same kinds of functions. These functions include planning, organizing, directing, controlling, and evaluating. The management techniques used by each person may change, but the functions are the same.

WHAT IS THE PLANNING FUNCTION?

Planning is the first and probably most important step in managing a business. Planning is the process of setting objectives and then determining the steps that have to be carried out in order to reach these objectives. Simply stated, planning means to look ahead, to set goals, and to consider ways of reaching the goals.



Planning must cover production, sales, finance, personnel, and all phases of business operation. Planning results in the formulation of business goals, programs to be undertaken, policies that establish guidelines for the firm's managers, and specific operating methods and procedures.

Whether your business is new or old, large or small, goals and objectives are important. Goals that are clearly established and properly communicated to employees have the best chance of being reached. Also, well-defined objectives provide a solid basis for managers to organize, direct, and control their businesses successfully.

Established goals must be specific and meaningful. The goal "to increase sales" is vague; "to increase sales by 10 percent in the next six months" is specific. Goals for your business must be stated clearly and in specific terms; they must not be established haphazardly.

WHAT IS INVOLVED IN THE PLANNING FUNCTION?

Planning takes a large share of every manager's time. Planning requires setting long- and short-term goals. Some examples of long-term plans are—

- to gross $500,000 in sales this year,
- to open a branch retail store,
- to hire a full-time salesperson, on a permanent basis,
- to add five more trucks and delivery routes.

Some examples of short-term plans are—

- to build a display,
- to let employees know about new operating procedures,
- to raise monthly sales 5 percent,
- to approve a floor plan for the new branch store.

Managers also make daily plans. These plans include appointments, special meetings, things to check on, and calls to make and return. A good manager arranges this list in order of importance. Then, if an emergency arises, the manager can quickly drop the least necessary item from the list and create time for the emergency. For instance, Ken Trump, managing editor of a small publishing company, always made a daily plan. However, he was quick to change the plan if problems came up. Compare the following "plan" and "actions."

Ken's Daily Plan	Ken's Actions
Review notes for board meeting	Checked final paste-up
Attend board meeting	Attended board meeting
Lunch	Ate lunch
Call: artist bindery compositor cancel luncheon	Asked secretary to: call artist cancel luncheon move editor appointment to tomorrow
Review manuscript	Asked production coordinator to call bindery and compositor
Consult with editor	Reconvened board meeting
Call author	Began to review manuscript

Managers often develop systems for improving their daily planning. As they think of things that need to be done, they record them at once so they won't be forgotten. Some managers keep a special "to do" list. Others carry a note pad or index cards. Some scribble their thoughts down on used envelopes, scraps of paper napkins, or any available paper.

Daily, short-term, and long-term goals are all related to each other. One is built upon the other. By accomplishing many tasks, one achieves short-term goals. By accomplishing many short-term goals, one eventually reaches the long-term goal. The following example shows this relationship.

Long-Term Goal	Short-Term Goals	Daily Plan
To open a branch retail store	Develop floor plan	Ask department heads to record features wanted
	Select building site	Discuss wants/needs
		Finalize specifications
		Meet with architect
		Meet with realtors
		Visit possible sites
		Discuss loan with loan officer of bank

ARE THERE PLANNING DEVICES AVAILABLE?

Many devices have proven helpful for the planning process. These include—

- Budgets
- Schedules
- Standards
- Policies
- Procedures

Budgets. Budgets are most helpful in financial planning. Financial budgets are estimated plans for the future that help keep expenses in line with income. They assist managers in setting goals and determining how to reach those goals. If managers know the financial resources they have available, they are better able to develop business plans. Budgets also show the costs of implementing any plan.

Schedules. Schedules are valuable planning tools because they help make effective use of time. A schedule is a plan for reaching objectives. Schedules list both the tasks to be completed by a department or individual and the approximate time required to complete the task.

Standards. Managers use another planning device—setting standards. A standard is a measure by which something is judged. Standards are set so people know when the quality of work reaches a desired level.

Policies. Managers often set policies as part of their planning process. Policies are guidelines used in making decisions about specific problem situations. A policy is a general rule to be followed

by the entire business. A policy helps reduce misunderstandings and encourages consistent solutions to similar problems.

Procedures. A procedure is an orderly list of steps to be followed for performing certain work. Procedures improve efficiency in doing routine tasks and are especially helpful to new employees.

WHAT IS THE ORGANIZING FUNCTION?

As has been said before, planning is a very important function of management. However, before any plan can be put into action, consideration must be given to how to carry out the plan. *Organizing* is the process of assigning duties and responsibilities and coordinating efforts among all organizational personnel to ensure maximum efficiency in reaching the business goals and objectives.

WHAT IS INVOLVED IN PERFORMING THE ORGANIZING FUNCTION?

Organizing is as important as planning. At this stage, the plan becomes more than an idea. It is translated into people, equipment, supplies, and other needed resources. You will select the people who will actually do the work. If equipment is needed to implement the plan, you will make sure it is available. When everything is ready, the organization phase of managing is completed.

As a manager, you will have the complex task of organizing the entire structure of the business. This process of organizing will involve three elements: division of work, the facilities, and the workers.

In establishing an organizational structure for your business, the total work must be divided into units, such as departments. One type of structure is to divide activities into buying and selling. For many small firms, this may be all that is needed. Larger firms may have more divisions, but needs will vary with the type of business. You must remember that organization is as necessary for a small business as for a large one. In an efficient organization, responsibility is assigned. Authority is delegated in order to best achieve goals and objectives.

The physical aspects of organizing must be considered. This includes providing proper equipment and materials for performing tasks and arranging the layout of facilities so that all work flows smoothly.

Organizing requires that work be divided into manageable units with each worker in mind. You must know what each employee is capable of doing and not expect more than he or she can deliver.

WHAT FACTORS IMPROVE ORGANIZATION?

Two key factors will help you organize your business more effectively. These include *delegation of authority* and maintaining a reasonable *span of control.*

As you might imagine, in small companies managers often make most of the decisions themselves. But as the organization gets bigger, managers must delegate authority to avoid inefficiency.

Whenever it is necessary, effective managers delegate authority to their subordinates. Ineffective managers try to do everything themselves. The key issue here is *how much* authority should be delegated, and *when* it should be delegated.

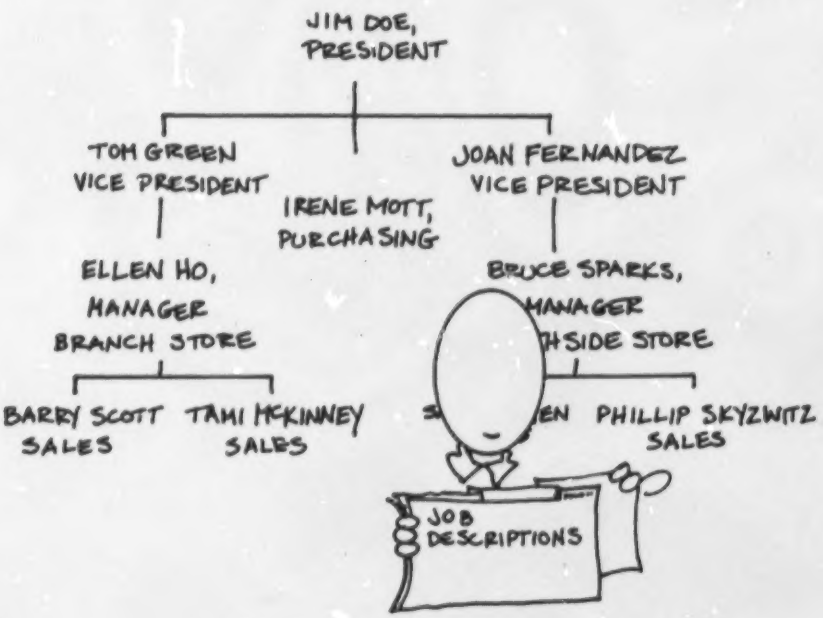
If the decision is a small one that doesn't involve much money, you'd probably want to delegate it to a subordinate. But if the decision is an important one, you'll need to think about your subordinate's capabilities first. Can the person handle the job? Does he or she have the skills to make a good decision? Should you make this particular decision yourself? By keeping such factors in mind, you can then determine the amount of delegation that provides the greatest amount of efficiency for your business.

Span of control refers to the number of employees who are directly supervised by one person. You must establish and maintain a reasonable span of control. If you attempt to supervise too many individuals, you will become overworked and unable to perform your own duties effectively.

In general, the span of control can be larger at the lower levels than at the upper levels of an organization. The most effective span of control varies with a number of factors. Among these are the nature of the work and the supervisor's knowledge, energy, personality, and abilities.

ARE THERE TOOLS AVAILABLE TO HELP WITH ORGANIZING?

Job descriptions and *organization charts* are two devices to aid you in performing the organizing function.



Job descriptions list the duties of an employee's job. In small businesses, the owner may simply give employees directions and let them take it from there. But as the business begins to grow, jobs need to be better defined, even if they're not always written down. Job descriptions are an excellent way of dividing the work of the business into manageable units. These breakdowns can then be used in developing an organization chart for the business.

An **organizational chart** is a visual device that shows the structure of a business and the relationships among workers and divisions of work. An organizational chart indicates each employee's area of responsibility and the person to whom each employee reports. These charts also provide for a clear understanding of the division of work. By understanding an organizational chart, employees have some idea of where and how they fit into the company.

HOW CAN YOU ORGANIZE A BUSINESS?

The two principal types of internal organization structure that businesses use are line or line and staff organizations.

A *line organization* means that all authority and responsibility may be traced in a direct line from the owner down to the person in the lowest position in the company. Under this form of organization, each employee is responsible to only one superior. This supervisor is, in turn, responsible to someone else.

A *line and staff organization* is used by businesses that handle either large amounts of work, or work of a complex nature. The result is that line personnel may not be skilled in all the specialties of those they supervise. To solve this problem, staff specialists (advisors) are added to give advice and assistance. However, the role of staff personnel is only to give assistance. They do not have authority over line personnel. On an organizational chart, staff personnel may be indicated by broken or dotted lines.

WHAT IS THE STAFFING AND DIRECTING FUNCTION?

Staffing and Directing. Once you have established a plan for your business by setting goals and objectives, and have organized the entire structure of the business, you must hire personnel and direct their performance. Directing involves getting the job done. This will be accomplished by communicating with employees and motivating them to want to do their jobs. This management function is discussed in more detail in the *Managing Human Resources* unit of PACE.

WHAT IS THE CONTROLLING AND EVALUATING FUNCTION?

Controlling and Evaluating. The controlling and evaluating function involves judging your success in meeting business goals and objectives, and then taking corrective action when goals are not being achieved. The purpose of control procedures is to discover why goals ar not being reached and to decide on corrective steps.

The control process involves three basic activities—

1. Establishing standards (the planning process)
2. Comparing performance against these standards
3. Taking corrective action if needed

WHAT DOES THE CONTROL FUNCTION INVOLVE?

Every type of business needs to employ control measures. Types of controls available to you include—

- Quality controls
- Quantity controls
- Time controls
- Cost controls

Quality Controls. Quality standards may be established as part of the planning process. Perfection, or no defects, may be the only acceptable standard for much of the work in business. Most customers expect no less. To ensure such quality work, a manufacturer may establish a sampling test of its products on a periodic basis.

Quantity Controls. Production managers may specify a quantity of a product to be produced during a given period. Sales managers may establish quotas for their salespersons. Such standards are set in the planning process. These controls can be used to evaluate workers by identifying both incompetent and competent employees.

Time Controls. Several time control devices are available to managers. One of these devices is planning schedules—where

comparisons of actual activities to planned events on a schedule are made. From these comparisons, you'll be able to determine whether or not activities were accomplished, as planned, within a certain period of time. Knowing the difference between planned and actual production goals will also help you plan future production goals.

Cost Controls. Cost controls often receive more attention than the other types of control. The most widely used cost controlling device is the budget. Like schedules and standards, budgets are also planning devices. Comparisons are made between planned and actual costs to determine if the planning process has been successful.

As a manager, you should remember that the most important part of any control system is timely feedback. Whatever system is used, it must identify problems before it's too late! If your business is having a cash flow problem, for example, you need to have sufficient time to borrow money. A good control system can provide this information.

CAN TIME MANAGEMENT TECHNIQUES HELP MANAGERS?

A crucial problem facing all managers is how to manage their time effectively. Time management is self-management. Time management means the efficient use of your resources to achieve management goals within reasonable time limits.

Managing time is like managing anything else; it involves planning, organizing, directing, and controlling. Time management is an ongoing process that can be divided into the following steps:

1. Find out how you use your time now. Keep logs or use other means to construct accurate records.
2. Analyze your time log to identify your problems. Is there any one activity that is taking up large amounts of time, but is not of real value to your business?
3. Set goals that are important to you. Assign each a priority rating to establish its relative importance.
4. Develop a plan to achieve your most important goals. Define these tasks within a time frame.
5. Implement your plan. Schedule the key tasks into your daily calendar. Use a "to do" list or similar aid.
6. Develop techniques for overcoming specific problems such as interruptions, crises, procrastination, or inefficient meetings. Use delegation of authority.
7. Conduct a follow-up study to detect problems and help you modify the plan.

Successful time management, like the other management functions, pays off by helping your business run more efficiently.

ACTIVITIES

Do you feel knowledgeable about the topics in this unit? Will you be able to put some of the skills into practice? The following activities will help you experience some of the real-life situations of entrepreneurs.

INDIVIDUAL ACTIVITY

Interview a small business owner/manager. Ask the manager to explain a problem that his or her business encountered and the process used to solve that problem. Outline the decision-making process presented in this unit. Then compare and contrast the decision-making process used by the owner/manager to the one presented in this unit.

INDIVIDUAL ACTIVITY

Interview at least three business owners in your community on the functions of management. Ask each to explain the management role he or she assumes in the firm. What is the organizational structure for the company? Who reports to whom? How have responsibilities been delegated?

INDIVIDUAL ACTIVITY

Identify a long-term goal that a business in your area of interest may set for itself. Establish short-term objectives that will allow the business to achieve this goal. Also, identify daily activities of the business that will help it accomplish this long-term goal.

INDIVIDUAL ACTIVITY

Keep a log of your daily activities for a one-week period. Analyze your activities. Is any one activity taking up large amounts of time without corresponding value? Were you faced with too many interruptions or did you have to complete unnecessary tasks? If so, how could you avoid these problems in the future?

Set management goals and objectives for the week after this log was kept. Assign each goal a ranking (most important to least important). Develop a schedule for the week in order to accomplish these goals and objectives. Schedule these on a weekly calendar. Be prepared to make changes as unexpected circumstances occur.

At the end of the week, evaluate your schedule. Did you accomplish the goals and objectives you had set for yourself? If not, what improvements or changes can you make in the future?

GROUP ACTIVITY

The following activity is designed to be completed individually, then in a group of three to four students.

A small publishing company finds overall sales dropping drastically. A survey shows that its traditional textbook sales are holding steady. Texts in special interest areas are doing poorly. Sales of audiovisual aids such as filmstrips are marginal. If sales are not increased quickly, cuts in budget and editorial and sales staffs must be made.

1. Individually, design a set of eight or more alternatives available for the business to operate profitably.

2. In a group of three to four students, compare your lists.

3. How do they differ? Did anyone arrive at unique and creative responses that others didn't identify? Are there others no one has mentioned?

4. Decide upon the three most appropriate alternatives.

CASE STUDY

"I'm in a very competitive business," Jill Anderson told her accountant Sally White. "That's why I haven't been able to make much money over the last three years. However, I think that things are going to get better this year and I'm certain that profits will rise."

This argument did not persuade Sally. She has been Jill's accountant for two years. Every time they have sat down to go over the end-of-the-year books, they have found things not as rosy as they believed they would be at first of the year. Although several important reasons could be cited for Jill's poor performance, Sally is convinced that the major cause is a failure to plan. Sally's argument with her client is as follows:

"You have no objectives, Jill. That's why you don't do very well in this business. You operate on a day-to-day basis. For example, I have continually urged you to set a profit objective and then work backwards in determining how much you have to sell and with what type of markup. That's the logical way of doing things. However, you prefer to just go along on a day-to-day basis without any real plan of action. I don't understand why you stay in business."

Jill was not upset with her friend's suggestions. However, she did not agree with them either. Her counter argument was as follows:

"If I did what you want me to do, I'd be spending all my time planning, reviewing the plan, and determining what was going wrong and why. How would I have any time for actually running this business? You really don't understand this operation. If I want to sell anything, I have to be out on the floor talking to customers, showing them the merchandise, and trying to close the sale. I don't have time for planning. When I get to be a big business, of course, I know I'll have to do some planning. But by then I'll have the assistance I need and I'll be able to devote time to it. For the moment, however, planning is going to have to wait."

1. Is Jill more interested in the "doing" or "thinking" side of the management job?

2. Whose argument do you most agree with: Jill's or Sally's? Explain.

3. If you were asked to give advice to Jill, what would you say? Be specific.

ASSESSMENT

Directions: Read the following assessment questions to check your own knowledge of the information in this unit. When you feel prepared, ask your instructor to assess your competency.

1. Identify the five steps in the decision-making process.

2. Apply the decision-making process to the following situation:

   Two types of desks, standard and executive, can be produced by the Okey Company. The profit yield on the standard desk is $20.00 in contrast to that of $50.00 on the executive desk. The company can produce a maximum of 600 desks a month. Problem: Which desks should be produced?

3. Distinguish between short-term and long-term planning.

4. Identify devices that are available to the manager during the planning process.

5. Name the three elements of a business that must be organized to promote its smooth operation.

6. Identify three basic activities involved in the control process.

7. Explain why time management is so important in managing a business.

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For further information, consult the lists of additional sources in the *Resource Guide.*

Level 2

PACE

Unit 1. Understanding the Nature of Small Business

Unit 2. Determining Your Potential as an Entrepreneur

Unit 3. Developing the Business Plan

Unit 4. Obtaining Technical Assistance

Unit 5. Choosing the Type of Ownership

Unit 6. Planning the Marketing Strategy

Unit 7. Locating the Business

Unit 8. Financing the Business

Unit 9. Dealing with Legal Issues

Unit 10. Complying with Government Regulations

Unit 11. Managing the Business

Unit 12. Managing Human Resources

Unit 13. Promoting the Business

Unit 14. Managing Sales Efforts

Unit 15. Keeping the Business Records

Unit 16. Managing the Finances

Unit 17. Managing Customer Credit and Collections

Unit 18. Protecting the Business

Resource Guide

Instructors' Guide

Units on the above entrepreneurship topics are available at the following three levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business

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